

ANNUAL
REPORT 1973

STRATHEARN
HOUSE GROUP
LIMITED





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Strathearn House Group Limited

Consolidated Statement of Earnings

(Unaudited)

	For the six months ended	
	August 4, 1973	July 29, 1972
	(Thousands of Dollars)	
Sales.....	\$17,780	\$12,057
Earnings from operations before depreciation and interest.....	1,675	1,271
Depreciation.....	269	183
Earnings before interest.....	1,406	1,088
Interest.....	406	243
Income Taxes.....	1,000	845
Net earnings for the period.....	420	411
Earnings per share.....	\$ 580	\$ 434
	\$ 0.20	\$ 0.15

Report to Shareholders

I am pleased to report on your company's first six months as a separate public entity. Comparisons are made in this report for the period ended August 4, 1973, with the same businesses as they existed as the home product group within the Dylex complex a year ago.

Sales have risen to \$17,780,000 from \$12,057,000 while profits have advanced to \$580,000 or 20 cents per share from \$434,000 or 15 cents per share.

Appreciably higher interest charges have been essentially offset by the effect of providing for income taxes at the lower rates applicable to manufacturing profits.

Production has been increasing monthly and, with a substantial backlog of unfilled orders, I expect sales and earnings to continue to improve for the remainder of the year.

W. H. Singer,
President.

September 6, 1973

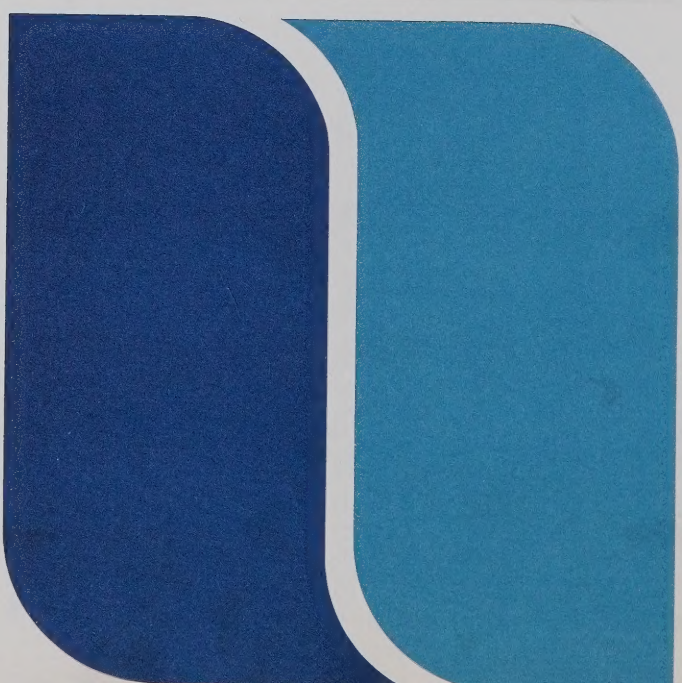
Consolidated Statement of Source and Application of Funds

(Unaudited)

For the six months ended	
August 4, 1973	August 4, 1972
(Thousands of Dollars)	
Source of Funds	
Net earnings.....	\$ 580
Depreciation and amortization.....	270
Funds from operations.....	850
Application of Funds	
Fixed assets—net.....	916
Investments.....	16
Reduction of long term debt.....	53
Other.....	6
	<u>\$ 991</u>
Decrease in Working Capital	
Working capital, February 3, 1973.....	\$ (141)
Working capital, August 4, 1973.....	3,776
	<u>\$3,635</u>

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Strathearn House Group



Interim Report

for the six months ended

August 4th, 1973

Strathearn House Group Limited
637 Lakeshore Boulevard West
Toronto, Ontario M5V 1A8

Financial Highlights

President's Message

Fiscal period ended	December 29, 1973 (Eleven months)	February 3, 1973 (Twelve months)
Sales	\$35,483,000	\$30,868,000
Net earnings	1,345,000	1,152,000
Earnings per share	46¢	40¢
Working capital	4,154,000	3,873,000
Shareholders' equity	\$ 7,036,000	\$ 5,782,000
Shares outstanding	2,912,883	2,912,883

To the shareholders,

I am pleased to present this report on our first 11 months of operations as a public company. The fiscal year-end of the company will now be the last Saturday in December so that all its subsidiary companies will have a uniform reporting period.

Financial Highlights

In the 11 months under review, sales increased by \$4,615,000 to \$35,483,000. Net profits rose to \$1,345,000 or 46 cents per share compared with \$1,152,000 or 40 cents per share in the 12 months of the previous year.

Furniture sales grew by over 21 percent, building product sales increased by over 11 percent and sales of plastic packaging rose by over 6 percent, despite industry-wide shortages of raw materials and the shorter fiscal period.

Strathearn House Today

Strathearn House is a growth company with the objective to develop and expand its existing assets and to acquire new assets which can be employed to maximize the profit potential of the total company.

The company presently operates in three areas of activities, furniture manufacturing, building products and assemblies, and plastic packaging.

Braemore Acquisition

A significant development occurred after the year-end when your company acquired control of the House of Braemore Furniture Limited and merged into this company our existing furniture operations. Subsequent to this the new furniture group acquired the business and assets of Standard Upholstery Company. As a result of these transactions Strathearn House now owns 58 percent of the issued shares of the House of Braemore and this investment positions your company as one of the largest furniture manufacturers in Canada.

The Braemore Furniture Group offers a wide selection of furniture and accessories to the household furnishings industry, made by such well-known trade names as Braemore, Troister, Hespler, Emanuel and Singer Lighting. The Braemore group produces upholstered furniture; wooden furniture products including occasional furniture, dining room suites, stereo and TV cabinets; laminated plywood panels, chesterfield frames and sundry other furniture components. Its broad line of accessories includes a range of lighting products, as well as wall hangings and novelty furniture. Products are marketed through department stores, specialty furniture chains and independent retailers.

Operations in the Building Products Division are carried out by Cadillac Building Products Company, a major manufacturer of a broad range of finished and semi-finished assemblies for use in housing construction. Its product line includes such items as lumber, wall panels, roof trusses, hardwood or parquet flooring, pre-hung doors, stairways and mouldings. Cadillac will deliver and install each of these components and will fabricate an entire house if requested.



In the Plastic Packaging Division, Ackripak, a leading supplier of rigid plastic containers to food processors and fast-food chains, is continuing to experience growth in sales and profitability.

Outlook

We believe the steps taken over the past year have positioned Strathearn House Group to achieve substantial growth in 1974. We have confidence that the Canadian economy will out-perform many of the U.S. indices and that in any event we feel there is a stability inherent in our major markets. As manufacturers, we are an important source of supply to each of the markets we serve. The flexibility of our diverse activities, our ability to react to change and the further strengthening of our management team, gives us great confidence for the future.

The prospects for the furniture industry are enhanced by a rise in new family formations and increasing demand for quality furniture at reasonable prices. As the spearhead of our activities in this industry, The Braemore Furniture Group is recognized as a major source of supply to retailers of home furnishings and accessories. Our relationship with major retailers, both chain and independent, has a history of many years and remains excellent. As these retailers are growing rapidly themselves, they are continually more dependent upon larger and reliable sources of supply, such as The Braemore Group.

The home building supply business in Canada is destined to grow not only as the result of housing demand but also because of the greater emphasis builders are placing on methods of cutting the costs of building. We see the need for all types of factory-manufactured components and building assemblies growing dramatically in the years ahead and we intend to increase our capability to meet that demand. Cadillac Building will expand its efforts to supply major builders, as well as retail building material suppliers, with a wide range of housing components.

Ackripak is one of the leaders in its rapidly-expanding industry. Plastic is becoming increasingly popular in the manufacture of food containers. We believe there will be continued and perhaps an accelerated growth in demand for the type of products Ackripak produces and we intend to share in that growth.

Thus far in 1974, the demand for our products in each of our divisions remains strong and sales figures are reflecting this. We believe the current rate of growth will be maintained throughout 1974.

The success of our company, over the past year, is due in large measure to our excellent management and the many years of experience they brought with them. On behalf of the Board, I would like to thank them and their staff for their conscientious and highly capable contribution to your company's success in its first year of operations.

President and
Chief Executive Officer

Toronto
March 29, 1974

Statements

Consolidated Statement of Earnings for the eleven months ended December 29, 1973 (\$000)	December 29, 1973 (Eleven Months)	February 3, 1973 (Twelve Months)
Net Sales	<u>\$35,483</u>	<u>\$30,868</u>
Earnings from operations before the following charges	<u>\$ 3,606</u>	<u>\$ 3,255</u>
Depreciation and amortization	492	414
Interest on long-term debt	304	64
Other interest	<u>589</u>	<u>493</u>
Earnings before income taxes	2,221	2,284
Income taxes	<u>876</u>	<u>1,132</u>
Net earnings for the period	<u>\$ 1,345</u>	<u>\$ 1,152</u>
Earnings per share for the period	<u>\$0.46</u>	<u>\$0.40</u>

Consolidated Statement of Retained Earnings for the eleven months ended December 29, 1973 (\$000)

Balance, beginning of period	\$ —
Net earnings for period	1,345
Organization costs written off (note 6)	(91)
Balance, end of period	<u>\$1,254</u>

Consolidated Changes in Financial Position for the eleven months ended December 29, 1973 (\$000)

Source of funds	
Operations	
Net earnings for the period	1,345
Charges not requiring use of funds	
Depreciation and amortization	492
Deferred taxes	73
Funds from operations	1,910
Mortgage receivable	2
Increase in long-term debt	54
	<u>1,966</u>
Use of funds	
Long-term debt (note 5)	237
Fixed assets	1,277
Investment in joint venture	51
Deferred charges	29
Organization costs	91
	<u>1,685</u>
Increase in working capital	281
Working capital, beginning of period	<u>3,873</u>
Working capital, end of period	<u>\$4,154</u>

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheet

Consolidated Balance Sheet as at December 29, 1973 (\$000)

	December 29, 1973	February 3, 1973
Assets		
Current		
Accounts receivable	\$ 9,193	\$ 7,158
Inventories — at lower of cost and net realizable value	8,439	5,097
Prepaid expenses	299	146
Deposit on purchase of land	218	—
	<u>18,149</u>	<u>12,401</u>
Investments — at cost		
Investment in joint venture (note 9)	51	—
Mortgages receivable	13	15
	<u>64</u>	<u>15</u>
Fixed — at cost		
Land	283	123
Building	1,227	628
Equipment and leasehold improvements	5,886	4,173
	<u>7,396</u>	<u>4,924</u>
Accumulated depreciation (note 1c)	3,790	2,139
	<u>3,606</u>	<u>2,785</u>
Other		
Goodwill (note 1d)	3,677	3,677
Deferred charges less amortization	51	58
	<u>3,728</u>	<u>3,735</u>
	<u>\$25,547</u>	<u>\$18,936</u>

The accompanying notes are an integral part of these financial statements.

Auditors' Report

To the shareholders,
Strathearn House Group Limited.

We have examined the consolidated balance sheet of Strathearn House Group Limited and its subsidiaries as at December 29, 1973 and the consolidated statements of earnings, retained earnings and changes in financial position for the period then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 29, 1973, and the results of their operations and the changes in financial position for the period then ended, in accordance with generally accepted accounting principles applied, after giving effect to the acquisitions from Dylex Limited referred to in note 3a on a basis consistent with that of the preceding year.

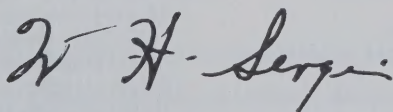
Toronto, Canada,
March 29, 1974.

Wm. Eisenberg & Co.
Chartered Accountants

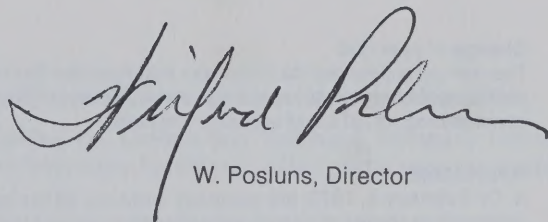
Liabilities	December 29, 1973	February 3, 1973
Current		
Bank indebtedness (note 4)	\$ 6,255	\$ 5,273
Bankers' acceptances	2,000	—
Accounts payable and accrued liabilities	4,337	2,353
Income taxes payable	514	608
Mortgage advances and deposits on sale of houses	614	—
Current portion of long-term debt (note 5)	275	294
	<u>13,995</u>	<u>8,528</u>
Long-term debt (note 5)	4,306	4,489
Deferred income taxes (note 1e)	<u>210</u>	<u>137</u>
Shareholders' Equity		
Capital stock		
Authorized		
5,000,000 Class "A" shares, fully participating, without par value		
1,000,000 Class "B" shares, fully participating, without par value, each convertible into a class "A" share at the holder's option		
100 Common shares, without par value		
Issued (note 6)		
2,501,421 Class "A" shares	4,965	4,901
411,462 Class "B" shares	817	881
	<u>5,782</u>	<u>5,782</u>
Retained earnings	1,254	—
	<u>7,036</u>	<u>5,782</u>
	<u>\$25,547</u>	<u>\$18,936</u>

The accompanying notes are an integral part of these financial statements.

ON BEHALF OF THE BOARD



W. H. Singer, Director



W. Posluns, Director

Notes

to the Consolidated Financial Statements
as at December 29, 1973

1. Accounting policies

a. Principles of consolidation

The consolidated financial statements include the accounts of the following wholly-owned subsidiaries:

Ackripak Limited
Cadillac Building Products Co. Ltd. and subsidiaries

Cadnor Development Corporation

Macad Construction Limited

Emanuel Products Limited and subsidiaries

Roti-Wood Products (Fergus) Limited

COSF Products Limited

Singer Lighting Co. Ltd.

Troister & Company Limited

All significant inter-company loans and transactions have been eliminated on consolidation.

b. Comparative figures

The combined balance sheets and earnings statements of the subsidiaries, acquired on February 5, 1973 (note 3), have been presented for comparative purposes for the year ended February 3, 1973.

Because December 29, 1973 was the first "year end" of the consolidated company, the combined statements of retained earnings and changes in financial position have not been included.

c. Depreciation

Depreciation is provided on a straight line basis at rates which are designed to write off the assets over their estimated useful lives as follows:

Building	—	2½ %
Equipment and leasehold improvements	—	10 - 33½ %
Automotive	—	25%

d. Goodwill

Goodwill represents the excess of cost of subsidiaries over their net tangible assets at the date of acquisition (note 3).

It is not the intention of the company to amortize this goodwill.

e. Deferred income taxes

Income tax reductions which are expected to be realized in future years by carrying forward losses of a subsidiary. In the view of management, as a result of an event occurring subsequent to the date of the financial statements (note 10), it is virtually certain that these reductions will be realized (\$167,000)

Income taxes provided in respect of timing differences between accounting and taxable income (principally depreciation) 377,000

\$210,000

2. Change of year end

The company changed its fiscal year end from the Saturday closest to the end of January to the last Saturday in December, commencing in 1973 and annually thereafter.

3. Acquisitions

a. On February 5, 1973, the company acquired all the issued and outstanding shares of certain subsidiaries of Dylex Limited, and their indebtedness to Dylex Limited, accounted for by the purchase method, at a price equal to their cost to Dylex Limited of \$13,024,000. The company paid \$9,124,000 in cash and gave back a 7% unsecured note for \$3,900,000, repayable in equal monthly instalments for 10 years, based on 15 year amortization.

b. COSF Products Limited (a subsidiary of Emanuel Products Limited) acquired as of February 5, 1973 for cash.

	note a	note b	Totals
Net Tangible Assets Acquired	\$ 9,347,000	\$11,000	\$ 9,358,000
Goodwill (note 1d)	3,677,000	—	3,677,000
Consideration	<u>\$13,024,000</u>	<u>\$11,000</u>	<u>\$13,035,000</u>

4. Bank indebtedness

The bank indebtedness is secured by a pledge of book debts and inventories.

5. Long-term debt

	December 29, 1973	February 3, 1973
7% Unsecured note, due February 5, 1983 (note 3a)	\$3,776,000	\$3,900,000
8% Promissory notes, secured by a mortgage, due March 1, 1979	613,000	643,000
Leases and mortgage payable	192,000	240,000
	<u>4,581,000</u>	<u>4,783,000</u>
Due within one year	275,000	294,000
	<u>\$4,306,000</u>	<u>\$4,489,000</u>

6. Capital stock

Pursuant to a contract, Dylex Limited offered rights to its shareholders of record on February 5, 1973, to subscribe for class "A" and class "B" shares of Strathearn at the subscription price of \$2 per share. All the class "A" and class "B" shares were issued for cash, less underwriting commissions thereon. The expenses of issue have been written off to retained earnings as a capital transaction. Class "B" shares are convertible to class "A" shares on a one-for-one basis. During the year 32,173 class "B" shares were converted.

7. Lease commitment

Aggregate minimum rentals of equipment and properties are as follows:

Year ended December 28, 1974	\$ 479,395
The next 4 years	1,825,179
After December 30, 1978 to May 31, 1997	2,767,097
	<u>\$5,071,671</u>

8. Remuneration of directors and senior officers

The aggregate direct remuneration paid or payable, for the eleven months ended December 29, 1973, to the directors and senior officers of the company was \$378,058.

9. Contingent liability

The company is contingently liable for the bank loan of a joint venture amounting to \$527,000.

10. Events subsequent to the year end

a. As of December 31, 1973, COSF Products Limited (note 1a) purchased the business and net assets of Standard Upholstery Company for approximately \$2,800,000, of which approximately \$1,200,000 was allocated to goodwill.

b. As of December 31, 1973, the following related transactions occurred:

1) The Company sold all the capital stock of the following subsidiaries (note 1a):

Emanuel Products Limited and subsidiaries
(C.O.S.F. Products Limited and
Roti Wood Products (Fergus) Limited),
Singer Lighting Co. Limited, and
Troister & Company Limited

to House of Braemore Furniture Limited ("Braemore"), at a price equal to their cost to Strathearn House Group Limited, for 657,900 common shares of Braemore and a note receivable of \$555,000 due within one year at normal bank rates of interest.

2) The company purchased 250,000 common shares of Braemore for a cash consideration of \$1,800,000 from a director of Braemore.

Consolidated Balance Sheet

Pro-Forma Consolidated Balance Sheet as at December 31, 1973 (\$000)

Assets

Current			
Accounts receivable	\$12,288		
Inventories	11,620		
Prepaid expenses	525	\$24,433	
Investments		168	
Fixed (Net of accumulated depreciation)		4,164	
Other			
Deferred income taxes	214		
Deferred charges	91		
Goodwill	5,893	6,198	
		<u>\$34,963</u>	

Liabilities

Current			
Bank indebtedness	\$ 9,577		
Accounts payable	6,462		
Income taxes payable	586		
Long-term debt due within one year	459	\$17,084	
Long-Term			
Note payable — Dylex Limited	3,776		
Other	3,613	7,389	
Minority interest in subsidiary		3,454	
Shareholders' Equity			
Capital stock	5,782		
Retained earnings	1,254	7,036	
		<u>\$34,963</u>	

The Pro-Forma Consolidated Balance Sheet gives effect to the following transactions which occurred as at December 31, 1973.

(1) The sale of all the capital stock of Emanuel Products Limited, Singer Lighting Co. Limited and Troister & Company Limited to House of Braemore Furniture Limited for 657,900 common shares of House of Braemore Furniture Limited and a note receivable of \$555,000.

(2) The Purchase of 250,000 common shares of House of Braemore Furniture Limited for \$1,800,000 cash, financed by a long-term bank loan.

(3) The purchase by House of Braemore Furniture Limited of Standard Upholstery Company for \$2,833,000, financed by the issue of 250,000 common shares at \$5.00, five-year promissory notes totalling \$1,500,000 (prime bank rate plus 1%) and a three-year non-interest bearing promissory note in the amount of \$83,000.

Directors

W. Glied

President of Cadillac Building Products Limited

J. F. Kay

President of Dylex Limited

I. A. Posluns

Executive Vice-President of Dylex Limited

J. I. Posluns

Executive Vice-President of Dylex Limited

***W. Posluns**

Secretary and Treasurer of Dylex Limited

***S. M. Sigel**

Partner, Messrs. Stitt, Baker and McKenzie, Solicitors

W. H. Singer

President of Strathearn House Group Limited

***A. H. Zaldin, Q.C.**

Senior Partner, Messrs. Zaldin and Fine, Solicitors

**Members of the audit committee*

Officers

W. Posluns

Chairman of the Board

W. H. Singer

President

J. F. Kay

Secretary & Treasurer

W. Baltman

Vice-President

M. Faith

Vice-President

W. Glied

Vice-President

S. Gossin

Vice-President

H. Vogel

Vice-President

Transfer Agent and Registrar

National Trust Company, Limited

Auditors

Wm. Eisenberg & Co., Chartered Accountants

Bankers

Bank of Montreal

Listed On

Toronto Stock Exchange

Montreal Stock Exchange

Head Office

637 Lake Shore Boulevard West,

Toronto, Canada

M5V 1A8

